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Development (195) Department.

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G.O. No. 2639.

Dated 7 - 6 - 51.

[Despatch Abstract.]

Planning Commission -- Development of Irrigation and Power levy of betterment fee - views of Madras Govt. furnished papers. Records

GOVERNMENT OF MADRAS
DEVELOPMENT DEPARTMENT.

Copy of letter No.111375 P & D IV/50-9 dated 7.2.51 from the Secretary to Government, Madras to the Secretary, Planning Commissioner, Govt. of India, New Delhi.

Sub:- Development of Irrigation and Power-Levy of Betterment fee.

Ref:- From the Planning Commission letters No.PC(V) 49/50 dated 11.10.50 and 4.11.50.

With reference to paragraph 14 of the Note on "Development of Irrigation and Power in India - a Fifteen Year Plan" forwarded with your letter dated 11.10.50 and in the note forwarded with your letter dated 4.11.50, this Government consider that the Betterment levy has been rightly considered by the Planning Commission, in the context of other levies now current on irrigation projects. In the last analysis, all these levies are designed to absorb the "unearned" increment arising from the supply of irrigation. It may be, as the Commission conceives that the betterment levy has specific reference to the enhanced value of land, but such enhancement is affected by the incidence of other levies on the profits or increased profits from land. In theory, if the entire profit is absorbed by the other levies there is no residual value on which betterment tax can be equitably imposed. In this context, betterment levies, presume that some of the profits escape being fully taxed, which enhance the value of the land.

2. In the Madras State profits from irrigation are already taxed by

1. Assessment of higher land revenue,
2. Water cess and
3. Irrigation cess

3. Wet assessment ranges from Rs.4 to Rs.10/- and dry assessment annas -/8/- to Rs.3/8/- per acre. These assessments are fixed at resettlements and to that extent are not promptly related to new irrigation facilities. This form of taxation has the advantage that it is an established one, naturally accepted and easily collected.

4. Water cess is levied on water supplied to lands which have no right for such supply. It may be a flat rate, a differential rate, according as the irrigation is of the first or subsequent crops, and according to the kind of crop. In addition, there are in some areas project rates, related to the capital expenditure on the projects concerned. The maximum rate of water cess now levied in the State is Rs.10/- per acre. The water cess has the advantage that it is ad hoc to the benefits conveyed.

5. Irrigation cesses are imposed in commanded areas, in which supplies taken may vary from year to year. The cess is levied irrespective of the fact whether the water is taken or not. Provision for such levy at Rs.9/- per acre exists in the Bhavani Irrigation Cess Act of 1923, and in the Malabar Irrigation Works Act of 1947. If such a levy is not directly related to the individual benefit conveyed, it is justified by the general benefit conveyed and the insurance implied in the irrigation project.

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6. The Planning Commission has raised the general questions of adjusting levies to (i) the new value of money (2) the increased cost of projects. It is true that the land revenue and the irrigation levies in many areas have no reference to their previous ratio to the outturn. Strictly they are liable to revision, but this Government has been inclined to think that any such revision should not ignore the depressed condition of agriculture. If there is some slack available now, it can compensate for the age old improverishment on one hand, and provide a starting point for future rehabiliation on the other. Generally speaking, it is economically advantageous to the State that the purchasing power of the largest section of its population, the agriculturists, should be stepped up, even as a basis for improving the general economics. To this extent, the test of making beneficiaries pay a precise return for irrigation facilities has to be modified. The general tax payer has the invisible benefit, that the revenues are used for productive purposes, the dividend of which accrue generally. Nonetheless, this Government are considering the fixation of a sliding scale, related to a definite fraction of the value of the outturn from irrigation. They are also considering the levy of an agricultural Incometax. They have referred both these questions to the Land Revenue Reforms Committee, which is now sitting.

7. In respect of relating levies to the increased costs of projects, various complicated issues arise. The position is (1) The cost of projects, including equipment and labour have risen out of all proportion, (2) The projects which now remain are more difficult and less promising than the ones executed before, on the very ground of their productivity ratio and (3) The Finance now available is more difficult and to some extent more expensive.

8. In these circumstances any exact relation of levies to the cost of the project would impose a burden on the beneficiaries which has no relation to the levies on the beneficiaries of older projects. If any equalisation is attempted by treating all projects in the State as one, the beneficiaries of the older projects would feel aggrieved. While therefore slighly higher rates can be justified and are being imposed, neither the old productivity tests, nor the consequential levies can be enforced. This Government is inclined to regard irrigation projects not as purely commercial propositions, but as insurance against the failure of monsoons and as foundation for agricultural prosperity, on which the general economics, rest. They reckon the return as largely invisible, but substantially genuine in the long run.

The problem therefore is of finance. This Government consider that the proceeds of Betterment taxes will not materially finance their programme for development of irrigation estimated to cost about Rs.138/- crores in the Five Year Plan and about Rs.444 crores in the Fifteen Year Plan. The Revenue account also can only meet a small part of this finance. The problem is to raise loans, in the present stringent financial conditions, without corresponding inflationery effects. One method tried by this Government is to circumscribe the loan to the area benefitted, and to cultivaters concerned, in an amount related to the area of the land, irrigated. For the Manimuthar project a loan has been collected at the rate of Rs.100/- per acre. In one other project, Amaravati, advance payment of the betterment fee at the rate of Rs.300/- per acre is being collected. Similar

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payments in respect of other projects are being prespected. It is considered that such payments capitalise the interest of the parties in the particular projects and absorb locally investible surpluses. Even when the loans are transacted by the contributors through banks they secure a form of compulsory saving. The question of establishing land mortgage banks in this connexion, is therefore relevant.

Regarding the general issues raised by the Planning Commission, this Government is in agreement that it is in the fitness of things that the "unearned" increment arising from the construction of irrigation works should accrue in part to the State. The question is whether this should be collected as at present through the various levies already in existence or in a consolidated form through only one of them. The advantage seems to be to continue the existing levies as they not only distribute the total indidence but are also related more precisely to the benefits derived.

On the question of the manner of recovery of the betterment levy all the alternatives suggested may be appropriate, according to the circumstances of the project and of the cultivators concerned. At present when the high prices of grain may have increased the savings of the cultivators, it may be possible to make recoveries in lump sums. This would serve to absorb idle money on one hand and to relieve Government of the strain on the other. To be attractive it may be necessary to pitch lump sum payments in a total, which is appreciably smaller than the total of instalment payments. Surrender of part of the holdings in lieu of betterment fee is being considered in the Irrigation Bill now under consideration of Government. So far, it has not been proposed to make such surrender compulsory, as it is believed that such surrender will eventuate natuarally in the case of excessively large holdings, which will not be able to pay the whole of the betterment levy due.

This Government would agree with the Cabinet Sub-Committee of the Bombay Government that it is unnecessary to control prices, or freeze, or purchase all lands within the command of irrigation. The same result can be secured by imposing various levies mentioned before, on the land to reduce its "unearned" increment.

This Government would also like to invite attention to the possibility of relating irrigation facilities to improvement in agricultural practices. Considering that the efficiency of agriculture, as generally practised at present, is obviously capable of improvement, the question of trading irrigation facilities against specific acts of improvement, like consolidation of holdings, use of improved seeds, fertilisers and implements etc. is of more than academic importance. The cultivator prizes irrigation to the point that he will be persuaded to do much that now appears new and difficult to him. The leverage provided by irrigation facilities therefore can be utilised to introduce a better discipline and consequential results in production. In fact, the full benefits of irrigation cannot follow unless there is corresponding improvement in agricultural practices. It is possible to insist on this improvement in technique before any particular project is taken up. Failing that, the improvement shown may be the basis for preferring some areas to others in the command of the irrigation.

Yours faithfully,
Sd.xx
P.T.O.

Copy to the Board of Revenue.
Copy to the Chief Engineer(Irrigation).
Copy to the Chief Engineer (T.P.R.)
Copy to the Chief Engineer(E).
Copy to the Revenue, Public Works Department.
The Finance.
Copy to the Development(P.&.D.V.).

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Copy of extract from the note.

The papers may be recorded for future reference.

GOVERNMENT OF MADRAS.
ABSTRACT.
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G.O.MS.NO.2639 Dated:- 7--6--1951.

Planning Commission - Development of Irrigation and Power Levy of betterment fee - Views of Madras Government - Furnished - Papers - Recorded.

RECORDED.

Sd.xx
Secretary to Government.

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R. Thayarajan
SUPERINTENDENT.
MADRAS RECORD OFFICE.